RATING REPORT

Next Capital Limited

REPORT DATE:
January 22, 2016

RATING ANALYSTS:
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RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	January 19, 2016	

COMPANY INFORMATION

Incorporated in 2009	**External auditors:** M/s KPMG Taseer Hadi & Co. – Chartered Accountants
Public Limited Company	**Chairperson of the Board:** Mrs. Hanna Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Najam Ali
Mr. Muhammad Najam Ali – 27.5%	
Mr. Arif Habib – 10.0%	
Muslim Commercial Bank Limited – 9.8%	
Arif Habib Limited – 9.6%	
Maple Leaf Cement Factory Limited – 7.5%	
Abbas Corporation Limited – 7.5%	
General Public & Others – 28.2%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)
http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf

Next Capital Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Next Capital Limited (NCL) is engaged in brokerage of equity, debt securities, commodities, forex and other financial instruments. The company also provides financial advisory services to various institutions.

Next Capital Limited (NCL) is engaged in provision of equity brokerage, fixed income and interbank foreign exchange along with financial advisory services. Incorporated in 2009, NCL was established as a vision of Mr. Muhammad Najam Ali. For building an equity base, he arranged investments from a consortium of institutions including Muslim Commercial Bank Limited, Maple Leaf Cement Factory Limited, Abbas Corporation Limited and Arif Habib Limited. Majority shareholding of NCL is held by institutions while more than one-third of interest is collectively vested with Mr. Najam Ali and Mr. Arif Habib. Remaining stake is held by individuals, general public and other entities. Current composition of the Board includes representation of Mr. Muhammad Najam Ali only; there is no active representation of other shareholders.

NCL operates through its head office in Karachi and two branches one each in Karachi and Lahore. Senior management witnessed changes with appointment of seasoned professionals at key positions, during the outgoing year. To improve its control environment, an Internal Audit (IA) department was also formed in 2015. Existing policy framework may need to be strengthened as the company's operations grow. Given that management does not foresee active participation in any upcoming public underwriting transactions, NCL does not have a formal underwriting policy in place.

NCL's revenue base more than tripled over past four years to Rs. 143.8m (FY14: Rs. 124.3m; FY13: Rs. 48.9m). While equity brokerage commission has historically represented major share of the top line, advisory fees has grown to represent one-third of operating revenues in FY15. However, growth in revenues has not translated into a similar growth in profitability on account of higher employee expenses as a result of profit sharing agreements with some of its senior management personnel.

Given higher operating expenses vis-à-vis recurring revenues, NCL continued to accumulate losses till June 2013, lowering its equity year on year. In 2014, the company earned a profit on its bottom line, subsequently recouping accumulated losses. However, total equity of Rs. 182.4m still falls short of the company's initial paid-up capital of Rs. 200m. Management is endeavoring to expand foreign client operations in the coming years; brokerage income is, therefore, expected to improve going forward. NCL is expected to increase its paid-up capital to Rs. 400.0m through issuance of 25m right shares at Rs. 8 per share, by end-March 2016.

On the assets side, outstanding balance of receivables exhibited a rising trend to Rs. 119.8m at end-FY15; trade debts significantly reduced to Rs. 66.1m by end-1Q16. Aging profile of trade debts is considered satisfactory with 76% falling in the 1-14 days category. The company's cash & bank balances increased significantly to Rs. 180.1m (FY15: Rs. 141.6m) at end-1Q16. This liquidity has been financed by way of long-term loans from directors which led to increase in resource base in the outgoing year. Moreover, leverage indicators also weakened with debt leverage increasing to 1.8x (FY15: 1.6x; FY14: 0.7x) while gearing was 1.1x (FY15: 0.7x; FY14: 0.4x) as at September 30, 2015.

Given that NCL envisages expanding its core operations in the coming years, higher profitability levels will allow the company to build its resource base further. The company plans to improve its bottom line on the back of expansion of branch network and greater penetration in the HNWIs segment. Higher anticipated retained profits will translate into a stronger equity base; this may enhance the company's overall business development and risk absorption capacity.

Annexure I

Name	Profile
Hanna Khan	Mrs. Hanna Khan is a graduate of Kinnaird College, Lahore. She also holds a Master's degree in Public Administration. She has previously worked for Fidelity Investment Bank Pakistan and has been an active social worker in Karachi.
Zulqarnain Mehmood Khan	Mr. Zulqarnain Khan possesses over 15 years of experience in the financial sector. He is one of the founding members of Next Capital Limited. Mr. Khan is a certified director from the Institute of Chartered Accountants Pakistan (ICAP). Mr. Khan is actively involved in investment banking transactions and equity trading. Prior to forming NCL, he was previously associated with JS Global Capital Limited as Head of North. Zulqarnain has also worked as senior Institutional Equity trader with AKD Securities Limited. He holds a Master's degree in Business Administration (MBA) from Philadelphia University, USA.
Hasan Shahnawaz	Mr. Hasan Shahnawaz is currently a sole proprietor of Multiline Leather Company and Shahnawaz Trading Pakistan. He has vast experience in the banking sector, having worked for several banks across Pakistan. He possesses extensive experience in dealing with foreign exchange transactions. Mr. Shahnawaz holds a Master's degree in Economics and Finance.
Muhammad Zubair Elahi	Mr. Zubair Ellahi has over 20 years of rich experience working in multiple capacities in Pakistan's capital markets. Prior to joining NCL, Mr. Zubair served as a Director at Bhayani Securities Limited where he was instrumental in transforming the sole proprietorship to a corporate brokerage house. While at Bhayani Securities Limited, Mr. Zubair served in numerous capacities which included all areas of the business. Mr. Zubair is a graduate of the Institute of Business Administration (IBA) with a Master's degree in Business Administration (MBA).
Kashif Rafi	Mr. Kashif Rafi possesses 13 years of capital markets experience in money market, portfolio management, investment advisory and treasury management. His last role was as Head of Fixed Income Investments at MCB Asset Management Company; he has also worked for JS Investments Limited.
Muhammad Najam Ali	Mr. Ali possesses over 23 years of experience working in various capacities in Pakistan's capital markets. Prior to forming NCL, he served as Chief Executive Officer (CEO) at JS Investments Limited. During this time, he also served twice as Chairman of Mutual Funds Association of Pakistan (MUFAP). Moreover, he has been present on the Boards of several companies including Pakistan Oilfields Limited, KSE Limited, National Clearing Company of Pakistan Limited (NCCPL) and Askari Bank Limited. Mr. Najam was also the founding CEO of Central Depository Company (CDC) Limited. While at CDC, he led the development and implementation of the National Clearing and Settlement System (NCSS). Mr. Najam is a qualified chartered accountant with the Institute of Chartered Accountants in England & Wales (ICAEW).
Umer Habib	Mr. Umer has over seven years of experience in private equity and equity research in Pakistan having worked with JSPE Fund I LLC, the first Pakistan focused private equity fund with over USD 150 million in committed capital from investors such as IFC, ADB, SAMBA, Proparco, SIFEM, CDC, UK. Mr. Umer also worked with the Dawood Group (Engro Corp Shareholders) evaluating private equity investment opportunities as well as within-group capital allocation decisions He has completed transactions worth over USD 80 million in various industries such as pharmaceuticals, agriculture, telecommunications, entertainment, power generation and financial infrastructure Mr. Umer holds a MBA from the National University of Singapore (Major: Finance) and is a CFA Level III Candidate.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
BALANCE SHEET	**30-Jun-15**	**30-Jun-14**	**30-Jun-13**
Trade Debts	119.8	70.7	26.2
Investments	0.0	5.0	0.0
Cash and Bank balances	141.6	3.0	96.2
Total Assets	439.8	272.6	252.5
Trade and Other Payables	148.8	44.1	87.3
Long Term Loans	108.6	0.0	0.0
Short Term Loans - Unsecured	4.1	58.5	0.0
Net Worth	178.2	169.4	161.9
INCOME STATEMENT	**30-Jun-15**	**30-Jun-14**	**30-Jun-13**
Total Revenue	143.8	124.3	48.9
Brokerage Income	97.7	74.4	36.5
Advisory Income	41.3	46.6	10.8
Administrative Expenses	137.9	125.3	68.6
Finance Costs	12.6	11.0	4.8
Profit Before Tax	14.7	8.8	-10.4
Profit After Tax	8.9	7.4	-6.7
RATIO ANALYSIS	**30-Jun-15**	**30-Jun-14**	**30-Jun-13**
Market Share (Share Turnover) (%)	2.7%	2.7%	2.3%
Commission Income / Turnover (Paisa/Share)	5.1	4.3	4.4
Liquid Assets to Total Liabilities	54.1%	7.8%	106.2%
Liquid Assets to Total Assets	32.2%	3.0%	38.1%
Debt Leverage	1.6	0.7	0.6
Gearing	0.7	0.4	0.0
Efficiency (%)	98.4%	102.8%	144.8%
ROAA (%)	2.5%	2.8%	-2.9%
ROAE (%)	5.8%	5.1%	-4.6%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Next Capital Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
19-Jan-16	A-	A-2	Stable	Initial